

Agenda Item 6

Finance Options Report & 10 Year Finance Plan

Overview

1. Finance Options Report

- Objectives, Participants & Schedule
- Findings & Next Steps

2. Ten Year Finance Plan

- Process & Schedule
- Status on Cost Estimates
- Preliminary Finance Strategies

3. User Fee Update

Finance Options Report

Reasons:

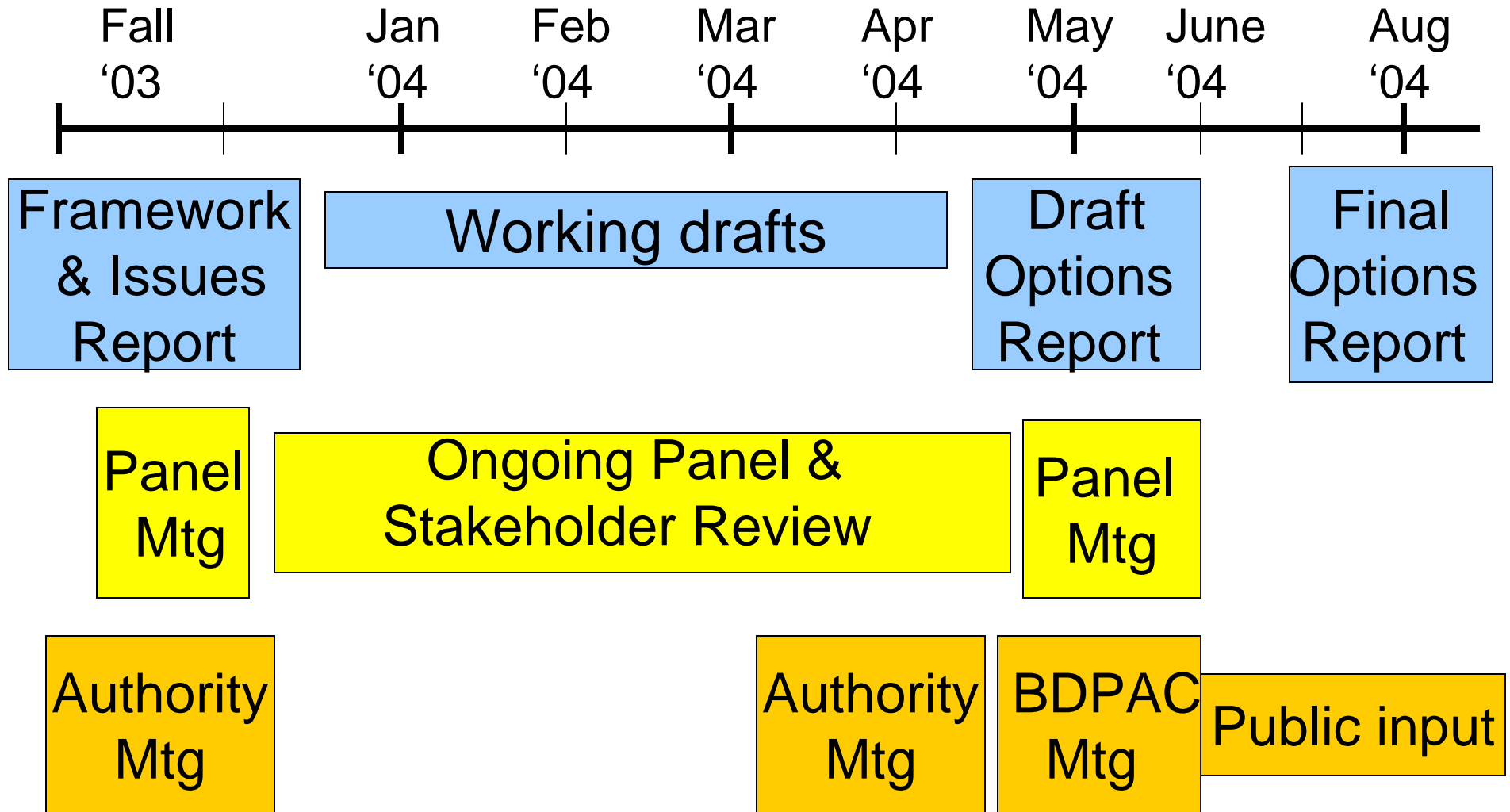
- Status quo approach of relying on state funding unlikely in the future
- Existing funding gone after 2006-7
- Water user fee requirements
- Benefits-based financing principle in ROD
- Coordinate financing among Program Elements

Finance Options Report

Objective of the Report:

- Build an understanding of Program costs and benefits
- Provide reasonable and instructive finance options
- Provides tools to assist decision-makers, stakeholders, & beneficiaries

Process & Schedule



Analysis Used to Develop Finance Options

1. What will it cost?
2. What are the benefits?
3. Who are the beneficiaries?
4. How should costs be allocated?
5. What are the finance tools?

Key Findings

- Expected future costs
- Programs/projects we can apply a benefits–based allocation
- Priorities for public/user funding
- Programs that could broaden cost-sharing

Findings: Expected Costs

Program Element	Ann. Avg (Mil.\$)		2006-2030 (Mil.\$)	
	Low	High	Low	High
Conveyance	21	36	525	900
Ecosystem Restoration	150	240	3,750	6,000
Environmental Water Account	30	30	750	750
Drinking Water Quality	21	56	525	1,400
Levees	41	74	1,025	1,850
Storage (only 1 surface project as example)	87	167	2,175	4,175
Watersheds	10	40	250	1,000
WUE (Mostly local; public \$40-\$50 Mil./yr)	170	380	4,250	9,500
Science	43	43	1,075	1,075
Oversight	10	10	250	250
Total	\$583	\$1,076	\$14,575	\$26,900

Findings: Expected Benefits

- Benefits-based analysis offers mixed potential
- Shortage of quantitative economic data
- Information can support broader group of beneficiaries than currently paying

Findings: Expected Benefits

	Now	Likely - Near Term	Maybe-Long Term
Conveyance	X (Supply & DWQ)	X (Flood Protection)	X (Ecosystem)
ERP			X
EWA		X (Supply)	X (Ecosystem)
DWQ			X
Levees	X (Flood Protection)	X (Supply, DWQ, Recr)	
Storage		X (Supply, DWQ, Flood, Hydro, Recr)	X (Ecosystem)
Watersheds			X
WUE	X (Supply)		X (Ecosystem)

Findings: Benefits & Mitigation

- When benefits could not be quantified—
Example Allocations based on divergent points of view
- For ERP and other elements
 - Public pays allocation
 - Water User pays allocation

Finance Tools

For the Public Share

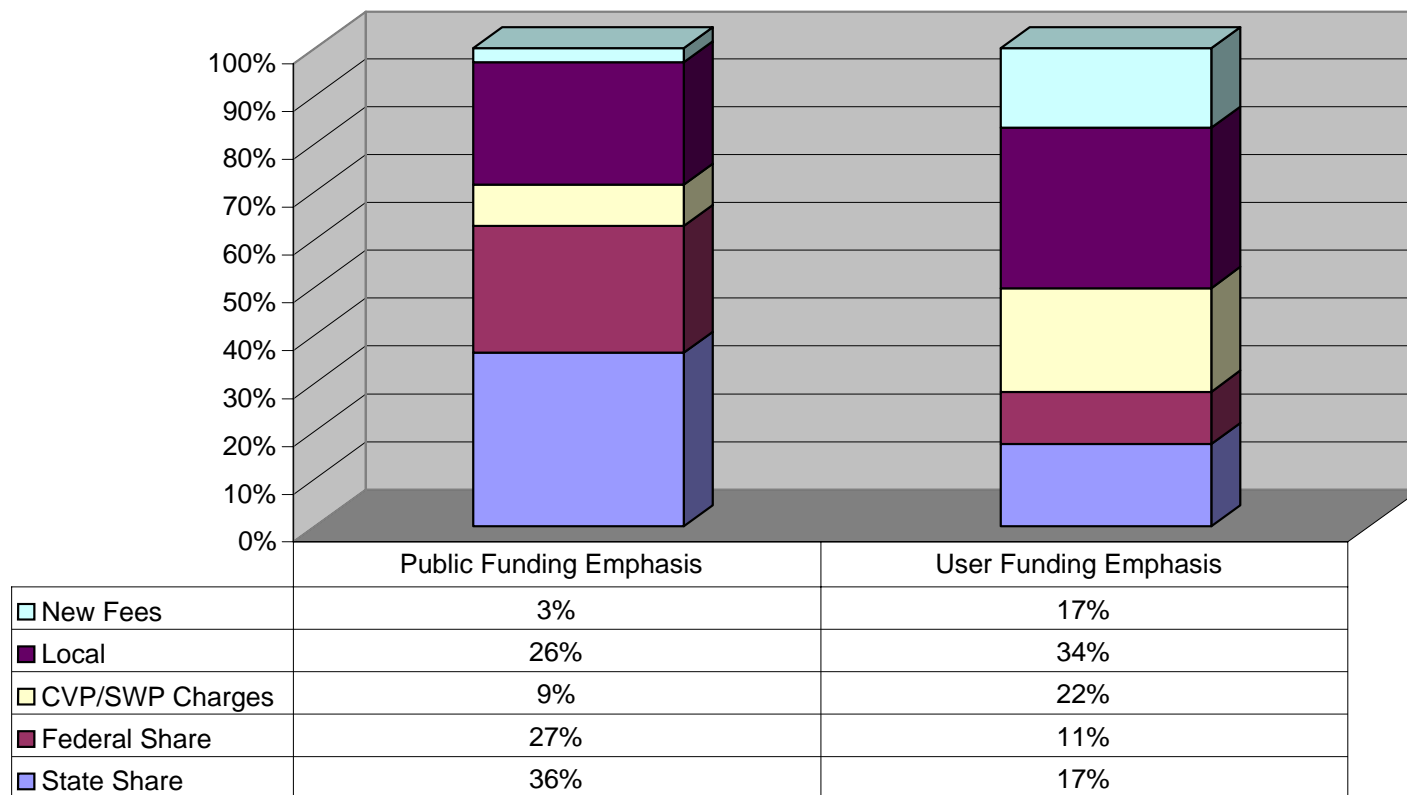
- State General Obligation Bonds
- General Funds
- Federal appropriations

For the User Share

- Self Liquidating GO Bonds
- State Revenue Bonds
- SWP contractor charges
- CVP contractor charges
- JPA Revenue Bonds
- Local matching contributions
- New State Administered Fees

Effect of Cost-Share Emphasis

Example Shares of CALFED Program Revenue by Source



Findings: Programs Suited to Water User fee

- Fee is best suited to programs with broader water user benefits & not able to identify individual beneficiaries
 - Ecosystem Restoration
 - Environmental Water Account
 - Drinking Water Quality
 - Delta Levees
 - Watershed

New State Administered Fees

Fee versus Tax:

- Need a Nexus between level of benefits and amount paid in fees
- Each program in CALFED has different set of beneficiaries that would result in varying fee levels among water users

Estimated Cost Shares by Beneficiary Group
(\$ Million per Year)

Program Element	Taxpayer Shares		Bay-Delta Resource User Shares		Local Contribution
	State	Federal	CVP/SWP Charges	New State Fees ¹	
Storage	0 - 37	0 - 37	29 - 86	11 - 13	8 - 62
Conveyance	0 - 3	0 - 2	18 - 35	0 - 0	0 - 0
WUE	40 - 148	3 - 35	0 - 0	0 - 0	84 - 327
ERP	33 - 108	33 - 108	0 - 13	0 - 99	15 - 24
EWA	5 - 9	5 - 12	0 - 0	9 - 21	0 - 0
Levees	15 - 25	9 - 41	0 - 0	0 - 11	4 - 8
DMQ	1 - 7	1 - 7	0 - 40	0 - 6	12 - 42
Watersheds	3 - 18	3 - 18	0 - 0	0 - 8	1 - 8
O&C	3 - 9	2 - 2	0 - 6	0 - 0	0 - 0
Science	11 - 16	6 - 15	12 - 24	0 - 0	0 - 0
Total	\$111 - \$378	\$62 - \$276	\$59 - \$204	\$20 - \$158	\$124 - \$471

1. Includes \$11-\$13 million for recreational fees associated with a new surface storage project; \$0-\$3 million per year for boater fees associated with the Delta Levee Program, and the remaining fee amount is for a water user fee ranging from \$9-\$142 million per year.

Finance Options Report

Future Activities:

- Identify where additional data to quantify benefits is needed and worth the investment
- Revise cost estimates and allocations
- Assist in optimizing investments
- Develop accounting system to track benefits related to costs/investments
- Identify local investments that contribute to CALFED objectives

Finance Options Report

Initial Stakeholder Comments:

- Comprehensive review of costs and beneficiaries pays
- Process moving too fast
- Process lacked adequate public involvement
- Benefits should not be determined by BDA but instead by the beneficiaries
- Benefits and costs not accurately linked

Finance Options Report

Independent Review Panel Comments:

- Technical approach solid
 - Methodology key contribution
- More upfront context needed
 - New summary section needed
- Expand topics
 - Mitigation, next steps, fee vs tax
- Emphasize long lasting learning

10 Year Funding Targets & Unmet Needs

Program Element	Funding Targets	Available Funding	Unmet Needs
Ecosystem Restoration Program	\$1,844.6	\$711.5	\$1,133.1
Environmental Water Account	\$394.4	\$108.0	\$286.4
Water Use Efficiency	\$2,162.5	\$1,348.2	\$814.3
Transfers	\$6.0	\$6.0	\$0.0
Watershed	\$123.0	\$51.6	\$71.4
Drinking Water Quality	\$264.4	\$4.5	\$259.9
Levees	\$500.3	\$109.7	\$390.6
Storage	\$1,062.5	\$979.7	\$82.8
Conveyance	\$345.4	\$179.6	\$165.8
Science	\$368.9	\$22.5	\$346.4
Oversight & Coordination	\$123.0	\$73.6	\$49.4
Subtotal	\$7,195.0	\$3,595.0	\$3,600.1
<i>Potential Capital Projects</i>			
Surface Storage Construction	\$5,863.5	\$0.0	\$5,863.5
Conveyance Construction	\$2,510.7	\$212.5	\$2,298.2
Suisun Marsh Levees	\$101.0	\$0.0	\$101.0
Total, including Uncertain	\$15,670.2	\$3,807.4	\$11,862.8

Preliminary Financing

Water Management

- Surface Storage
- Surface Storage
- Conveyance
- Groundwater Storage
- WUE (Conservation, Recycling, & Desalination)

Financing negotiated

GW and WUE Grant Programs – Primarily local funding, Public cost share for broader statewide benefits

Preliminary Finance Strategies

Drinking Water Q

Levees

Public \$

Local Cost share

Water User fee

possible

Boater Fee possible

broad public benefits,

Local funding,

Water User Fee possible

Preliminary Finance Strategies

Ecosystem Restoration

Environmental W

Watershed

Public \$
Local funding,
Water User fee
possible

Public \$ - Future State bonds &
Federal appropriations,
Water User fee possible,
CVP Restoration Fund,
Local cost shares

Preliminary Finance Strategies

Science

Oversight and Coordination

Public \$ and mixture of all
funding sources that support all
Programs

Public funding – state &
federal

User Fee

Status:

- Governor's May Revise language
- Senate Trailer Bill Language
- Administration Proposed Trailer Bill Language
- Conference Committee Action

Finance Options Report & Ten Year Finance Plan

Next Steps

- Public outreach thru BDPAC Subcommittees
- BDPAC Meeting – July 8th
- Options Report comments due July 15th
- BDA Meeting – August 12th
 - Options Report Finalized
 - 10 year plan report to BDA
- Finalize 10 Year Plan – late 2004
- Possible User Fee -- 2005